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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions.

THE reactionary tendencies which developed in May in certain lines of trade and industry have continued in June. They are most marked in goods for personal consumption and particularly in textiles and shoes. The unseasonable weather which prevailed throughout the spring months no doubt was an important factor in a disappointing retail trade in clothing and dress goods, but the restriction of banking accommodations, a disposition on the part of the public to make a stand against further price advances, and unsettled conditions in foreign markets, were among other contributing influences. Retailers with heavy stocks became uneasy as the season advanced, reduction sales were generally held and merchants developed a lack of confidence in the future of prices which led to the cancellation of orders for fall delivery. Demoralization began in the silk trade in the early spring, and the manner in which prices in that line slumped, and the disastrous effects to the industry, particularly in Japan, afforded an object lesson which undoubtedly made an impression throughout the textile trades.

Markets Sensitive.

The markets have been sensitive because everybody has known that prices were abnormally high and that it was only a question of time when a decline must set in. The whole structure of wages and prices has been created by temporary and extraordinary conditions, and practical people have realized that they must be prepared to shift their position as conditions change. Once confidence in the future of prices is shaken buying naturally stops and everybody looks for a safe shelter until conditions clear up. Such a situation developed in the early months of 1919, but the theory that prices were about to find a permanently lower level at that time proved to be a false one. The demand for war supplies fell off, but a great backed-up demand from the regular trades promptly absorbed all the labor released from the war industries and from the armies and even forced prices to higher levels than were reached during the war.

The present movement is not so broad as that which started in 1919. The trade in textiles is demoralized; orders for fall delivery, particularly of woolens and worsteds, and to an important extent in knit goods, underwear and other cotton goods, have been cancelled, and the production of these goods is being curtailed. At present prices of raw materials and present wages manufacturers will not make up goods except upon orders, so that as orders are worked up or cancelled they shut down their works and lay off their employes. This is an inevitable result of the high level of prices. Nobody wants to be holding the goods when prices fall. From the retailer all the way up the line to the manufacturer and from him back to the producer of raw materials, there is the same natural eagerness to avoid accumulations and commitments until a definite trend develops.

The shoe trade is in a similar state of unsettlement, a heavy fall in the prices of hides and leather having taken place, which dealers have been quick to interpret as foreshadowing lower prices for shoes, and they have been withholding and in some instances cancelling orders to such an extent that a considerable degree of unemployment has developed at the shoe-making centers. Leading manufacturers at St. Louis have announced reductions of 50 cents to $2 per pair in wholesale prices.

On the other hand, the iron and steel industry is moving along with no troubles but those arising from inadequate transportation service, which are serious, and that appears to be the general situation. The most common complaint over the country in business circles is about the insufficiency of railroad service.

The Future of Prices.

The prevailing opinion about prices is that an effective stop has been put to the upward movement, and there is a unanimous sentiment of relief over the fact. The endless round of rising wages and prices could not go on indefinitely. The sooner the rise was stopped the sooner might stable conditions be reached. The present state of suspension and uncertainty in the textiles and shoes will last until these trades get their bearings and determine their relation to the general situation. The curtailment of production is unfortunate, for the full product of these industries probably will be wanted. The cancellations, pre-

sumably, signify an effort to get the same goods at a lower price rather than that the goods will not be wanted at all. In other words the cancellations are incidental to an expected readjustment of prices, upon a lower level. As yet the chief characteristic of the disturbed markets is a paralysis of activity rather than a general fall of prices, although prices undoubtedly have been broken.

Possibly the great distribution of clothing which took place last year, and which was incidental to the demobilization of the military forces, has put the country in position to do with smaller purchases of clothing this year. At any rate there are strong indications that consumers will buy less of clothing and shoes at the high prices that have been prevailing than at lower prices, and that these trades will not have full employment unless costs are reduced. They may rest awhile and ponder over this fact.

Stabilizing Influences.

However, the manufacturers of woolen and cotton goods will not operate their machinery at a loss, and it is not to be expected that a very radical reduction of prices can be had in these industries without corresponding reductions in other lines, which will effect a general lowering of living and manufacturing costs. As yet, there is no general decline of foodstuffs, coal is established on a higher basis than heretofore, freight charges are about to be advanced, taxes are moving upwards as the salaries of public employes are brought into line with current wages, interest rates are rising, building materials, machinery and factory equipment are higher than a year ago, and as yet wage controversies are, generally, over demands for increases rather than over demands for reductions.

Even in the midst of the disturbance in the textile industry an advance of 15 per cent in mill wages went into effect June 1 which is equivalent to 50 per cent on pre-war wages.

The general world situation is not favorable either to a rapid decline of prices or to prolonged industrial depression. There is too much work needing to be done. The argument from former reactions from high prices and succeeding periods of industrial depression is not good, for the reason that such reactions in the past have followed periods of construction and enlargement of industrial capacity which had run their course. Present high prices are not the result of a period of construction and investment. The $25,000,000,000 of new government indebtedness which is glutting the banks and investment markets represents in only a very small part new industrial facilities. On the contrary this indebtedness represents capital which should have gone into our railroads, house-building and other construction and development work.

Moderate Price Reductions Indicated.

The rising prices of the last year have indicated scarcity of goods and services of all kinds. A check upon higher prices is wholesome and desirable, but does not signify that the country has run a full normal course of industrial expansion. On the contrary it is apparent the country has scarcely begun to make good the deficit in capital improvements which would have been made but for the war. It has scarcely begun to make good the shortage of houses, public improvements and railroad equipment. The exports of May reached a total surpassed in not more than three or four months of our history, and there is reason to believe that the unsatisfied needs of other countries correspond to our own.

Until this loss of normal capital accumulation and of necessary construction has been made good, it seems probable that while excessive price advances will be followed by reactions, every material decline in construction costs will bring out new demands for labor and materials, with a renewal of general business activity. Of course employment and trade are mutually dependent.

The crops are more promising than earlier in the season, which means that the buying power of the agricultural population is likely to be fairly well maintained, and this is the great steadying factor in the domestic trade situation. If the crops of Europe should be fortunately so large that our exports of foodstuffs would decline, the way would be cleared for a general lowering of industrial costs and of prices the world over, and a return to conditions more nearly normal than have prevailed since the outbreak of the war. On the other hand, if our exports of farm products continue at the rate of last year, it seems improbable that any considerable reduction of wages or prices will occur in world markets or in this country. The situation seems to make a general state of industrial depression improbable, but favors a gradual readjustment of supply and demand with a downward tendency of prices.

World Conditions.

The textile centers of England are reporting a falling off of orders from all parts of the world. Trade with India and China has been hurt by the decline of exchange. The Oldham Chronicle of the second week in June reported on the situation as follows: "Business has been very dull. * * * Spinners are still contemplating the steady reduction of their order books. It is doubtful whether the majority are selling one week's production in four."

From Switzerland comes the following from a prominent representative of the textile industry:

"As far as business conditions are concerned there is at present stagnation in the selling line in all countries. The whole world has apparently issued an order of the day that at the present exorbitant prices

nothing more is to be purchased; it remains to be seen if this rule can be abided by as it must not be overlooked that the rate of production is considerably less than before the war, owing to the reduced working hours, and that on all sides wages are again showing a tendency to advance. In any case it will be advisable not to rely too confidently on a reduction in prices. A reversal of present views on the position might come about all too quickly. To-day it looks as if the next few months would be very quiet, on the other hand it is to be anticipated that after this lengthy stoppage somewhat more activity will be manifested towards the late summer months."

The shoe and leather trades are also experiencing depression. The London Economist says:

> The demand for foreign hides remains quiet, and tanners, in view of a falling leather market, are not buying, many, in fact, having seriously reduced their input in order to steady the position. Shoe manufacturers are very short of orders, except makers of high-grade goods, and many of them are now only working part time, as with the high cost of labor there is no disposition to make for stock on a falling market.

Wool and Hides.

The wool market is adversely affected by the fact that a free market will exist in Australia at the close of June, and that there is a heavy carry-over of government stocks there as well as ample stocks in the United States. The Australian premier, Mr. Hughes, has been endeavoring to persuade the British administration to favor the market by withholding its accumulations until this year's crop is sold, but this policy is opposed by the trade generally and has not been adopted. Recent sales in London, about the 1st of June, showed a decline of about 20 per cent from the preceding auction, and in consequence offerings for the present will be reduced. The British government may be expected to adopt a policy designed to protect the market against an extreme decline.

The unfavorable exchange conditions are a serious obstacle to wool importations by the countries on the continent of Europe, Germany, which should be a large purchaser, taking practically nothing.

In this country the markets are so unsettled that very little wool is changing hands, but the Journal of Commerce says that the finer grades are off 20 to 30 per cent from their high level and carpet wools 60 to 75 per cent.

Hides and leather have had a heavy decline in the last three months. Prices advanced during the war on heavy exports of leather, but declined about the time of the armistice, and then on a resumption of heavy exports in the spring of 1919 soared higher than ever before. Since February last the market has been weak, best calf skins declining from $9.00 to about $2.50. Horse hides were as high as $22 in 1919 and are now as low as $8. The general run of cattle and sheep skins are down 40 to 50 per cent, and the decline upon goat skins is about the same.

General Trade Well Maintained.

Notwithstanding the stagnation which exists in a few lines general trade is well maintained, as shown by the fact that bank clearings in June have been running ahead of those of a year ago. The May pig iron output, notwithstanding the transportation troubles, was at the rate of 36,000,000 tons per year, and the steel ingot output at the rate of 42,000,000 tons per year.

Building operations, however, show signs of curtailment, owing to further advances in construction costs. Brick-makers report many cancellations, but business in excess of shipping facilities.

Agricultural Conditions.

The general crop situation has improved steadily and is very encouraging. The harvest of small grain is completed in Texas and Oklahoma and well advanced in Kansas, with results considerably above the early estimates. The winter wheat crop promises to be above 500,000,000 bushels, and spring wheat in Montana, the Dakotas and Minnesota is doing well. The acreage of both classes of wheat is 15 or 20 per cent below that of last year, but if disaster does not happen to the crop in harvest there is likely to be as much grain, including the carry-over, as there was last year. The lost acreage in wheat is largely in corn, which has a good stand, plenty of moisture at this time and is well advanced. There is more than the usual amount of old grain in farmers' hands, so much in fact that the problem of where to put the new crop is troubling the rural communities out West. The advice of authorities is to stack the small grain and postpone threshing until the granaries are cleared. Threshing has begun in the Southwest and the first reports are of fine quality and good yield.

The First National Bank of Kansas City, in response to an inquiry, had on June 26 replies from 92 Kansas towns showing the number of cars ordered for old wheat in those towns and not yet furnished, 2,358; storage, capacity in those towns 5,532,500 bushels; wheat in storage, 1,744,587 bushels; estimate of farmers' holdings, 3,269,600 bushels; condition of new wheat crop, 17 "fair," 55 "good" and 20 "excellent."

The hay crop is made, and is a large one, and of great value for feeding purposes. Butter production is at a good rate now, but was late in beginning, so that on June 1 the amount which had gone into storage was only about one-half that of a year ago. However, it is gaining now, and with a favorable season the storage may be as large as last year, although the average price of the stock is higher thus far. The same is true of the storage of eggs. By the way, who knows now what a dealer can af-

ford to pay for butter and eggs for next winter's trade? It would be well for people who are critical of the "profiteers" to try guessing on their own account. The cold storage warehouses will handle goods for anybody.

Live Stock.

Cattle and hogs are coming to market in lighter supply, and prices have recovered notably, particularly for cattle, since early in May. At that time sellers of fine beeves were making heavy losses, but they are feeling better, with prices from $2 to $4 per hundredweight higher. Hogs are up perhaps $1 per hundred-weight and the lamb market is also more satisfactory to producers. Last winter was a disastrous one on the Western ranges, particularly in Montana and Wyoming, where losses in cattle ran from 10 to 25 per cent and in sheep from 10 to 12 per cent. Feed was scarce and very dear, the winter long and larger amounts of feed had to be shipped in from states farther east. It is said to have cost an average of $30 per head to winter cattle in Montana and Wyoming, and $5 or $6 per head in the case of sheep. Both states have been seriousy denuded of their herds and it will take several good years to restore them.

The losses which cattle feeders have experienced have had the effect of reducing the number of feeders for the coming season. The distribution for feeding is lighter than usual, which foreshadows a shortage of finished beeves next winter. The outlook for hogs likewise is for a smaller crop. This general situation is the result of markets for live stock out of line with prices for corn.

Wool.

The situation which has developed in wool inflicts further hardships upon the stock growers of the West. The wool market collapsed almost in a day from the high range of prices which have been ruling for the last year to a state in which bids are almost unobtainable. The market is in such a chaotic condition that practically no business is being transacted. Owing to the heavy expenditures which the ranchmen have been under, not only in producing the present crop of wool but in wintering their herds, they are obliged to realize on their clip in some manner, and a meeting with the Federal Reserve Board has been held to consider what means might be devised for procuring credit for them. The conclusion arrived at was to attempt relief by means of 90 days' acceptances, in hopes that the wool market will recover stability in that time In order, however, to dispose of acceptances on the market it will be necessary that the wool be pledged and, of course, released from any liens already existing against it. The situation is a trying one, in view of the unsettled condition of world markets, and it is of general concern because it affects a great essential industry.

The cotton crop after suffering a bad start and showing last month the lowest condition known at that stage, has made a remarkable recovery in June, and now bids fair to make nearly as large a yield as last year, or approximately 11,000,000 bales.

Foreign Crops.

The crops of Europe doubtless will be larger than in any year since the war began, but until Russia resumes her old position as an exporter of foodstuffs and raw materials Western Europe will necessarily depend largely upon the United States and Canada. The crop outlook for the latter is on a par with that of the United States.

Argentina seems to be in the position of having sold too much of its wheat crop. The last crops were large and exports since January 1 have been the largest in the history of the country. The tonnage in the first three months of this year of wheat, flour, corn, oats and linseed compare with other years as follows:

1920	2,972,903
1919	711,829
1918	799,503
1917	1,044,237
1916	1,569,323
1915	1,903,280

The Argentine government is now attempting to buy back a part of the wheat crop, believing that not enough has been reserved to supply the domestic needs, and has levied an export tax on wheat and flour which is equivalent to about 46 cents per bushel for wheat and $1.89 per barrel for flour.

Sugar.

The world's crop of sugar last year was more than 1,000,000 tons short of that of the previous year, and the latter was about 2,000,000 tons short of the last crop before the war. The average sugar exports of the countries of Europe for the three years, 1910-12, as given by the London Economist, was as follows: Germany, 674,000 tons; Austro-Hungary, 660,000 tons; Russia, 327,000 tons; France, 165,000 tons; Belgium, 147,000 tons; Holland, 126,000 tons; a total of over 2,000,000 tons. Of these only Holland and Czecho-Slovakia have exported any sugar since the war.

The situation in the United States is becoming easier as the result of imports from all quarters of the world. About 21,000 tons have been purchased in Argentina, which will come along later in the season, and will be distributed under arrangements effected by the government to the canning and preserving industries, which are said to be now assured of a supply. The expectations are for larger pro-

duction in all sugar-producing countries this year, and for increasing supplies until prices return to normal figures.

Financial Conditions.

Now that the reserve banks have recovered their equilibrium after the tax-payments of June 15, it is possible to take account of the trend of their operations during June. The amount of bills secured by government obligations had been reduced on June 25, from $1,447,962,000 on May 28 to $1,277,980,000, but other bills, including open market purchases, have risen from $1,490,019,000 to $1,552,999,000. The effect of the payment of about $720,000,000 in taxes is perhaps not yet fully evident. The total earning assets of the twelve reserve banks on June 25 was $3,183,275,000, against $3,244,425,000 on May 28, $3,235,832,000 on April 30 and $2,354,167,000 a year ago. This increase of nearly $800,000,000 since the last war loan was closed, and over a period during which production was not increasing, tells the story of inflation, but not the whole story, for it would be necessary to have the loans of the individual banks to show that.

Undoubtedly the inability of the railroads to move freight freely is the chief factor in the failure to date of the effort to reduce loans. The story is the same in every part of the country. The rural sections cannot deliver farm products, the mining districts cannot deliver coal and the factories cannot deliver their products. The exchanges are hampered and more credit is required. There is no immediate prospect of relief. It looks as though a system of priorities, or rationing, for railway service as well as for bank credit, would have to be adopted, to enable the most essential business to be done.

Business Overdone.

The plain truth is that the wants of the country, released from the restraints of the war time, are in excess of the industrial capacity of the country, and the demand for credit is greater than required to operate the industries and handle the exchanges in a normal manner. It is a competitive demand, a demand which represents the efforts of producers and dealers to get labor, materials and goods away from each other, and under such conditions any amount of credit that may be granted will be largely expended in driving up wages and prices.

The transportation problem will have to be worked out by applying capital to the improvement of facilities, and meanwhile it is evident that what the country needs is not more credit but more capital. People are prone to confuse the powers of credit and capital, to think that the former can be substituted for the latter to a greater degree than is possible. Credit is purchasing power; you can buy things with credit but you cannot make things with it. Credit is an intangible thing, while capital is always something tangible, as lands, buildings, machinery, materials. Credit gives mobility to capital, helps to make capital available in different ways and places, but when it comes to actual production nothing can be done without labor and capital. It follows, therefore, that if the use of credit as purchasing power is increased faster than the supply of labor and capital is increased, wages and prices will be forced upward.

We have had that during the past year, and the movement has been carried to the point where a reaction results from natural causes. Some lines of industry have outrun others, the situation is out of balance, the natural reciprocity is lost, the industries are not mutually supporting as they must be for a state of permanent prosperity. There must be a readjustment and in view of the strained condition of credit it must be at a lower level of values. There can be no relief for the credit situation except at a lower level of values, where less credit will be required to handle the business of the country. Of course just as much business can be done, just as many goods made and distributed, at one level of values as another. Nothing has been gained by the great expansion of bank credit and rise of prices which has taken place during the past year. The situation is more difficult to deal with now than it was then, and every increase in the volume of bank credit and advance in the price level will make it still more difficult, because the ground will have to be retraced.

The Money Market.

The money market quotably has been without much change throughout the month although the tax-payments and preparations for July disbursements have put an additional strain upon it, and call money has been in relatively smaller supply and ranged somewhat higher. This situation is expected to improve as funds are released following July 1st, and there should be a situation of comparative ease until the fall demands begin to make themselves felt. Time money is in scant supply at 8 to 9 per cent, commercial paper 8 per cent.

The Federal Reserve Banks of New York, Chicago and Minneapolis on June 1st raised the rates, upon rediscounted paper and 15-day collateral loans to 7 per cent, although in New York State the maximum rate of interest upon time loans to individuals is 6 per cent. Other reserve banks probably have been deterred from similar advances by like restrictions upon the charges of member banks.

In New York State the usury law does not apply to call loans of over $5,000 or loans to

corporations. Presumably the legislators were not interested in extending their paternal care over such borrowers, but the effect of the usury law in times like this, when borrowers are more interested in getting accommodations than they are in the rate, is to give an advantage to the very class as to whom the legislators were indifferent. When there are not enough funds to go around, naturally, other things being equal, the borrowers who pay the best rate are likely to have a preference, which furnishes another illustration of the difficulty which legislators usually find in trying to make water flow up hill. Fortunately, the relations of individual customers to their bankers are not determined solely by the rate of interest upon their borrowings, and valued customers are usually accorded the accommodations to which they are entitled.

The cessation of gold exports has been a favorable development, and the probability that considerable gold will come between now and October from London tends to strengthen the position of the money market. These receipts will replenish the supply and enable the reserve banks to meet future export demands, provided they are not forthwith used as the basis of additional credit. It is clearly the intention of the Federal Reserve authorities that they shall not be so used. The public will do well not to look for any relaxation of present credit restrictions until after a very considerable reduction in the present volume of credit has been accomplished, which is not likely to occur this year.

Foreign Trade and The Exchanges.

The foreign trade of the United States, according to statistics of the Department of Commerce, shows, for the month of May, exports of $739,000,000 against $685,000,000 in April of this year, and $604,000,000 in May of last year. For the eleven months ended May, 1920, exports were $7.474,000,000, against $6,304,000,000 in 1919.

Imports in May totaled $431,000,000, against $496,000,000 in April, and $329,000,000 in May of last year. For the eleven months ending in May of this year, imports were $4,686,000,000, against $2,803,000,000 in the same period of last year.

These figures do not include movements of the precious metals. The latter have been light. The Canadian government has sent $8,000,000 to New York to meet its own payments here, a few millions of Transvaal gold has come here from London, and the Argentine government has released an amount of which mention is made elsewhere. On balance there has been a gain of gold since the movement to Argentine ceased, but since January 1 exports have aggregated $190,000,000 and imports $97,600,000.

The balance of over $300,000,000 in May in our favor on merchandise account was a surprise. It is reassuring to have exports keep up as they do, and to have the European exchanges show the strength they do, but nobody pretends to understand all this phenomena. Of course the larger volume of exports from Europe, not only to the United States but to other parts of the world, is an important factor.

Exchange Rates.

The pound sterling, Paris, Belgian and Swiss franc and lire have all made gains during the past month. The mark has been stronger, for reasons not clear, but probably under speculative buying induced by reports of a readjustment of the indemnity more favorable to Germany. The immediate food crisis in Germany must be passing with the maturity of this season's crops and it is to be hoped that before the necessity for further importations comes Germany may have something to export in payment. The crops, however, are not back to normal. The soil needs fertilizers not produced in Germany and which it has not been able to buy this year, although it would have helped the food situation everywhere to have helped Germany to a good crop.

The industrial recovery of Germany waits on help from outside to enable the industries to buy the materials they need, and meantime the printing presses are turning out more marks daily.

The table of monthly quotations is as follows:

	Unit Value	Rate in cents May 25	New rate June 25	Change from par	Depreciation
Canada	1.00	.8950	.8800	.1200	12.00
Germany	.2382	.0255	.0270	.2112	88.66
Italy	.1930	.0535	.0616	.1314	68.08
Belgium	.1930	.0765	.0870	.1060	54.92
France	.1930	.0740	.0829	.1101	57.05
England	4.8665	3.85	3.9675	.8990	18.47
Switzerland	.1930	.1770	.1825	.0105	5.44
Holland	.4020	.3643	.3562	.0458	11.39
Denmark	.2680	.1635	.1645	.1035	38.62
Norway	.2680	.1800	.1678	.1002	37.39
Sweden	.2680	.2100	.2210	.0470	17.54
Spain	.1930	.1670	.1670	.0260	13.47
Argentina	.9648	.9662	.9537	.0111	1.15
Japan	.4985	.5100	.5150	.0165	*3.31

*Premium.

Sterling began a distinct upward movement the latter part of May, early in June reached $3.96, and later touched $4. The Chancellor of the Exchequer has announced that the credits accumulated by Great Britain are sufficient to pay off one-half of the British share of the Anglo-French external loan, maturing in October. Undoubtedly, an important factor in the upward movement of the pound sterling is the economic and financial recovery of Great Britain, which in view of the stupendous difficulties encountered is entitled to recognition.

British Finances.

British Treasury revenues are now exceeding ordinary expenditures and the government is planning to reduce its indebtedness by something more than $1,000,000,000 in the current fiscal year.

Notwithstanding the shipment of approximately $50,000,000 of gold to the United States in recent months on government account, the gold reserves of the Bank of England on June 24th amounted to $585,000,000, which compares with about $435,000,000 a year ago, about $315,000,000 two years ago, and $175,000,000 before the war. Of course the liabilities have grown since 1914 in greater proportion than the reserves, but the Bank has not lost ground since the war ended.

Approximately $20,000,000 of gold was received about the first of last month from Hong Kong, on British government account. This is understood to have been some of the Kolchak gold, originally pledged to secure a British loan.

Further shipments from London are expected in the near future, and apparently large amounts must be forwarded between now and October 15th to carry out the announced purpose of paying the $500,000,000 Anglo-French loan in full.

British Banking Policy.

In this connection it may be added that much is said in the United States, usually by way of criticism upon banking policy here, of the liberality and courage shown by British bankers in financing trade and enterprise. The same kind of comment is heard in England upon banking policy in the United States and elsewhere, by the same class of critics. Before the war it was common in England to extol the liberality and enterprise of German bankers at the expense of British bankers.

As a matter of fact British bankers are following the same general policy pursued by bankers in the United States, in efforts to prevent further inflation. The Bank of England led the Reserve banks of the United States in adopting a 6 per cent. rate, again in adopting a 7 per cent. rate, and if reports from excellent sources are correct it is now contemplating an 8 per cent rate. The financial authorities of England have held steadfastly to the purpose of restricting credit, reducing indebtedness and building up reserves as fast as consistent with taking good care of their maturing obligations, as in the case of the Anglo-French loan. It goes without saying that the British and French governments would much prefer to renew their joint loan, but they have recognized the inadvisability of attempting to do so in the present state of this investment market.

One of the examples of resourcefulness has been the act of the British government in lending Argentina $50,000,000 in the United States with which to pay the latter's obligations aggregating that sum, which matured in this market on May 15th last. In doing this the British government was anticipating a payment of its own to Argentina which falls due in January, 1921, on a food credit granted in 1918.

The loans and deposits of the Bank of England have declined in recent months and the policy of keeping the uncovered issue of exchequer notes under the limit fixed, £320,600,000, has been adhered to. On June 9 the percentage of reserve to exchequer notes in circulation was 10.9 against 8.3 on June 25, 1919, and 9.1 on December 31, 1919.

South American Exchange.

Trade with the countries of South America is running in favor of the United States to such an extent that the latter is recovering some of the gold previously shipped to that quarter. Exchange on the United States is at a sufficient premium in Buenos Aires to justify gold exports from there, but the Argentine Government is meeting the demand by receiving currency at the conversion office in exchange for gold which it has had on deposit with the Federal Reserve Bank of New York. Currency had been issued against this gold in Argentina, the same as though the metal was stored there, and as this currency is presented for redemption gold is released here, which serves the convenience of all parties and has saved the cost of transporting gold both ways. This is a practical illustration of the services of a Pan American gold fund, which has been under consideration by the Pan American Finance Commission.

This turn of affairs also serves as a timely reminder of the mistake which might have been made by hastily placing an embargo upon the exportation of gold a few months ago. About $17,000,000 of Argentine gold has been released in New York, which is equivalent to a return of so much of our exportations made early in the year.

The South American exchanges are likely to continue in our favor until fall, when the next crop of Argentine wool will be ready to move.

The Asia Exchanges.

Trade relations between Asia and the rest of the world have changed decidedly since February last, when the United States Government was melting silver dollars to satisfy the demand for bullion for export to China and the British Government decreed that henceforth ten rupees should be the equivalent of a sovereign. Apparently the trade balance has shifted; anyhow silver is no longer wanted for China and the British Council for India has been selling securities from the gold standard reserves in London to meet drafts on London sold in India, a proceeding which involves a considerable loss to the fund at present security prices.

The embargo maintained since the beginning of the war upon private importations of gold and silver into India has been raised, but no metal is going there from the United States, although importations from India doubtless exceed our exportations to that country. We are making settlement through London, taking advantage of our ability to buy London exchange at a discount and convert it into rupee drafts.

A curious feature of the situation is that notwithstanding the fall of Indian exchange and the sale of gold reserve securities to meet drafts from India on London, a considerable movement

of gold from London to India continues. It seems to be in response to the demand for gold outside of financial uses, a demand for gold as a commodity rather than as a debt-paying medium.

The Situation in Japan.

The yen has advanced to a premium in this market, notwithstanding the fact that the trade balance is against Japan, and several million dollars have gone out by recent steamers. This seems to represent a withdrawal of balances, probably for the purpose of strengthening reserves. There has been recurrence of panicky conditions, although the exchanges have been reopened and it has been thought that the worst was over. At the end of May raw silk was at the lowest price registered since before the war.

For the month of May and five months of this year, the imports and exports of Japan have been as follows:

	May	Five Months
Imports—yen	293,846,000	1,394,804,000
Exports—yen	191,583,000	954,581,000
Excess Imports	102,263,000	440,223,000

We are not likely to lose much gold to Japan while trade continues in this state, but trade is likely to decline and it remains to be seen which side will fall most rapidly.

The Price of Silver.

The falling off in the demand for silver for Asia has resulted in a peculiar situation in the silver market in this country. Under the Pittman act the Secretary of the Treasury is required to replace the melted silver dollars by the purchase and coinage of bullion, the product of American mines and smelters, when such bullion can be obtained at $1.00 per ounce. Accordingly the Director of the Mint has been given a standing order to buy 207,000,000 ounces of the American product, and purchases have begun. The silver must be identified as the product of American mines and American smelters, but as smelters in their operations find it necessary to mix the foreign and domestic ores, they are permitted to deliver as American product an amount equivalent to their purchases from American mines.

Under ordinary conditions, since the United States is one of the chief sources of silver for world consumption, the absorption of its entire product for domestic consumption at $1.00 per ounce might be expected to raise the price in all markets at least to that level, but to the surprise of everybody this has not been the effect in the present instance. Calculations have been upset by the supply of melted silver coin arriving in London from the continent of Europe, which is reported as amounting approximately to 1,000,000 ounces per week. Nobody knows how long this stream will last, but the total silver coinage of Europe is large, and it is all out of use as money.

Formerly Europe was a steady buyer of new silver for coinage purposes, but now it has not only ceased to be a buyer but become seller of quantities sufficient to take the place of normal American exports.

As a result of this development, in connection with the decline of the demand for Asia, there are two prices for silver bullion in the United States, to wit: the price paid by the United States Treasury for the product of American mines and smelters, and the market price of foreign silver for commercial use. The former is $1.00 per ounce and the latter fluctuates from day to day with supply and demands being now about 92 cents.

As in other instances of abnormal prices there is a likelihood that silver producers will suffer in the long run from the recent spurt of prosperity. It may be a long time before the consumption of silver for coinage purposes gets back to what it was before the war. The British government is reducing the contents of its silver coin from eleven-twelfths to five-tenths. Moreover, as prices fall the amount of coins required in circulation will be less than it has been.

The Railroad Situation.

The inadequacy of railroad service continues to be the most serious factor in both the industrial and financial situations, although it must not be understood that the movement of freight is not heavy. For the first three months of this year the tonnage handled was 24.7 per cent. greater than in the first three months of 1919, and 29 per cent. greater for the month of March. Compared with the corresponding months of 1917, tonnage was greater by 7.6 per cent. in January, 1920, by 8 per cent. in February and by 8.6 per cent. in March.

These figures are for months before the railway strikes began. Tonnage figures are not available for later months, but for April the gross earnings of the roads were greater than in April of last year, amounting to $385,680,000, against $373,883,000 in April, 1919.

The fact that earnings were greater in April than a year ago is surprising in view of the confusion occasioned by the strike. The congestion at the terminals has been very great and the efficiency of car-service apparently very low. Sporadic strikes have been occurring at scattered points in a manner which has suggested concerted action for the purpose of influencing the wage board, which has been deliberating upon the applications for increased pay. Recently, outbreaks at Philadelphia and Baltimore have compelled the establishment of embargoes against consignments to those important ports.

There could be no more striking example of injury done to the entire wage-earning population by the inconsiderate action of a part of it than is afforded by these strikes. Thousands of wage-earners have lost millions in wages by the shutdowns of industrial establishments made neces-

sary by these strikes, while the cost of food supplies and other goods have increased. The railway men justify their action by complaining of the slow procedure of the Wage Board, but it may be noted that the Interstate Commerce Commission is quite as deliberate in dealing with the applications of the railway companies for increased rates. In fact, the rates have been insufficient for years.

The railway employes have fared very well on the whole as compared with wage-earners in other industries, regularity of employment and rates of pay considered, and very well compared with the treatment accorded railway shareholders. Public supervisory bodies are expected to have due regard for their responsibilities and to act with deliberation. Such a body as the Wage Board, composed as it is of representatives of the employes, employing companies and the public, inevitably requires time to reach an agreement, and probably will have to compromise differences.

The Bond Market.

The bond market during June did not display any outstanding characteristics, but in-investment houses engaged in the distribution of general issues have reported a fair business. There were a limited number of new issues which were taken by the smaller investors, and the best indication of general conditions throughout the country may be obtained from a report of one of the larger investment houses whose average sale on a $10,000,000 industrial was less than $2,500. This situation has naturally led to the question, "What is the large investor doing with his money?" The answer may best be summarized by a letter which was recently received from a man of substantial income whose investments prior to the war period had been ranging from $300,000 to $500,000 per year. In this letter he stated that the Government was being operated on the funds which he had formerly been accustomed to investing in high-grade securities. Thus the tax situation has eliminated the large buyer and the credit situation has largely eliminated the banks from the markets, with the result that investment houses are combing every section of the country, including the small towns, and new issues are finding permanent places in small pieces in the hands of new investors. Investment dealers are looking forward to that day when a lowering of taxes will allow the large investor to accumulate his usual investment funds and when the easing in the credit situation will bring the banks into the investment market again. When this time arrives we can confidently look for advancing prices, for the army of new investors will undoubtedly continue their thrift habits which have been fostered by the investment houses as a matter of necessity during the past months. There is little likelihood of the demands for capital easing to any marked degree for some period; nevertheless, sound issues should continue to be absorbed in increasing volume.

Government and Municipal Issues.

Early in the month the Federal Reserve Bank increased its rediscount rates, and Liberty Bonds declined 2¼ points, while Victory Bonds declined ¾ of a point. On June 10 the Secretary of the Treasury announced $400,000,000 Treasury Certificates in two series, to bear 5¾%, for the January 3, 1921 maturity, and 6% for the June 15, 1921 maturity. This announcement resulted in only a slight decline in government securities, and the successful sale of the certificates resulted in a firmer tone for all government issues. Investment houses specializing in Liberty issues are reporting a wide demand from all sections of the country, particularly for the small denominations. This indicates that investors are taking advantage of the present opportunities to purchase government issues which yield from 5% to 6.35%.

The new level of municipal prices seems to have become more stabilized during the past month, and a recent survey shows that about $18,000,000 in new municipal issues have been placed for investment during the past few weeks. High-grade issues of the states and larger municipalities have been selling at prices to yield from 5½% to 5¾% on maturities of 10 years or longer, and 6% on the shorter maturities. Second-grade municipals have been ruling on a 6% basis for long maturities and as high as 7% on the short maturities. The supply of new issues has been unusually small, and this has been an important factor in the maintenance of prices. It is interesting to note that municipals are now selling at prices which return the highest yield during the past twenty years. The increase in the volume of municipal offerings and the gradual increase in the cost of money are the responsible factors. From 1900 to 1910 municipalities were engaged in the construction of buildings or the selection of tangible property, but since that date road building has occupied a prominent position in municipal financing. Since 1915 the yields have increased at a more rapid rate. The Wall Street Journal recently published a comparison of the yields of 10 standard state, city and county bonds located in Massachusetts, New York, New Jersey, Ohio, Illinois, Minnesota, Utah, Oregon, Texas and Virginia. The bonds selected were direct obligations levied upon the real and personal property of the municipality, and the average yields follow:

1900	3.41%
1905	3.73
1910	4.10
1915	4.28
1920	5.25

The larger issues during the past month include $1,500,000 Jersey City 6s, to yield 5.65%, $4,-

000,000 Cleveland, Ohio, 6s, to yield 5.60%, $1,500,000 Oregon 4½, to yield 5.75%, $2,500,000 South Dakota 5½s, to yield 5.75%, $1,645,000 Indianapolis 4¾s, to yield 5.50%.

American dealers offered $2,000,000 British Columbia 6% bonds on a 7¾% basis, and Canadian dealers offered an issue of $3,000,000 Province of Ontario 6s at par, to yield 6.23%.

Foreign Government Issues.

One of the most attractive foreign government offerings was made on June 1 in the form of $50,000,000 Kingdom of Belgium 7½% 25-year bonds at 97¼ and interest. The particularly attractive feature of this issue is the fact that $2,000,000 will be called by lot each year at 115. The yields, therefore, will vary from 24.89% on bonds called in 1921 to 7.95% on bonds called in 1945. The issue was over-subscribed and widely distributed and a strong secondary market has continued throughout the month. In response to improvement in exchange rates in Belgian francs, the Belgian External 6s, due 1925, became very active toward the close of the month and advanced five points to 99. These 6s were brought out in January at 95¼ to yield 7%. The holder has the option of surrendering his bonds and requesting the sale of 11,000 Belgian francs for each $1,000 bond. He will then receive par for his bonds and half of the profits on exchange represented between the sale rate and the fixed rate of 11 francs to the dollar, the other half to be retained for the Belgian Government.

Anglo-French 5s were strong during the month, advancing to 99½. United Kingdom 5½s of 1921 advanced to 97⅛, and City of Paris 6s, were firm at 92½.

Railroad and Corporate Issues.

Railroad financing continued during the early part of June, and the new issues met with the same success which has attended similar flotations since the first of the year. The new issues included.

$10,000,000	Union Pacific 7% Equipments, prices ranging from 100 to 101.
15,000,000	Southern Pacific 7% Equipments, prices ranging from 100 to 101.
15,000,000	Chicago & North Western Ry. 7% bonds, 100.

It is estimated that since the first of the year 24 railroads have placed a total of $258,998,000, which included $163,125,000 serial notes and equipments and $95,873,000 bonds, most of which mature in ten years. After this month new railroad issues must be approved by the Interstate Commerce Commission, and it is anticipated that new issues will appear with less frequency as the major railroads have undoubtedly taken care of their pressing requirements.

Corporate issues have been offered in restricted volume, the principal issues including $10,000,000 Hershey Chocolate Corporation First Lien 7½% bonds, to yield 7.85%, $6,564,000 American Sumatra 7½% notes, to yield 8%.

Following the tendency of recent months there were fewer offerings of preferred stocks during June than in any month since the first of the year. The largest issues included $20,000,000 Goodyear Tire & Rubber 7% preferred and $10,000,000 common, in blocks of two shares of preferred and one of common for $300.

Public Utility Issues.

June witnessed a revival of interest in public utility issues, and new issues were promptly absorbed by discriminating investors. It has been unfortunate that the investing public has neglected public utility issues during the past year, largely as a result of the tragic position in which we find some of our major traction properties. In the traction field, however, there are many situations which merit confidence. The present census is showing an enormous increase in urban population, but during the past decade there has been little increase in traction mileage. This has resulted in a great increase in the number of passengers carried, and earnings in many cases have been adjusted to a profitable basis. Corporations furnishing power and light are enjoying unequaled prosperity. The installation of electric power in factory operations has resulted in an enormous demand on the power companies to supply current. The large central stations have demonstrated their ability to produce and distribute power at such an economical unit cost that their position is permanently assured. The increased density of population is reflected in the growing demand for light, and it has been estimated that there are now 14,000,000 homes in the United States still to be supplied with electric light. Before the war public utilities securities issued by corporations of undoubted strength, based on strong values and earning powers, could be purchased at prices to yield from 5% to 5½%. Today, with largely increased values and increased demand for the output, the same class of securities can be purchased at prices to yield from 7% to 8%. The prominent issues during the month include:

$ 5,000,000	Commonwealth Edison 7% bonds, to yield 7.75%.
6,000,000	American Light & Traction 6% notes, to yield 7¼%.
5,000,000	Cleveland Electric Illuminating 7% bonds, to yield 7½%.
2,000,000	Idaho Power 8% bonds, to yield 8%.
4,000,000	Shawinigan Water Power 7½% notes, to yield 8%.
10,000,000	Ohio Cities Gas 7% notes, to yield 8%.

The combined average of 40 active corporation issues, as reported by the Wall Street Journal on June 26, was 72.92, compared with 72.14 on May 26, and 85.42 on May 27, 1919.

Chinese Consortium.

Mr. Thomas W. Lamont, who recently returned from a trip to China, where he represented the interests of a group of American banks, reports, in a statement issued on his return, "that the Governments of England,

France and Japan have come to an agreement with the Government of the United States, and each accepted in full the plan proposed by the United States, for the formation of a four-power banking group for a loan to the Government of China."

These groups have entered into a partnership to assist China in the development of her great enterprises, such as reform of the currency, railway building, highways, terminals, etc. The Consortium has no plan of exploitation laid out for China, nor will it undertake one except at the earnest desire, and with the hearty co-operation, of the Chinese people.

The government of Japan finally receded from its claim to certain special rights and privileges in parts of China and comes into the arrangement on equal terms with the other participating powers. The spirit and intent of the agreement is to supersede the old grab policy with a policy of enlightened co-operation that will promote peace.

The idea of international harmony which underlies the formation of this Consortium, as well as the possibility of aiding material and moral development of the Chinese people, are thus set forth in Mr. Lamont's statement:

> The American Banking Group, and the other banking groups, were organized primarily at the request of their respective Governments. Almost two years ago, in laying down the plan for the new Consortium, the American Government pointed out that if it were possible to arrange for banking groups of the four countries to lend assistance to China through the medium of an international group, namely the Consortium, a full and equal partnership would thus be established, calculated to be highly beneficial to China and to the interests of the four nations involved. The American Government in effect pointed out that, under such an arrangement, the international contest for new and valuable concessions in China, might largely be prevented; the setting up of new "spheres of influence" which in the past had proved detrimental to China's welfare might be done away with; thus the integrity and independence of China would be maintained and international jealousies in the Far East would in large measure be avoided.
>
> As to China, I am aware that many persons characterize it as a great disorganized, almost chaotic people. No one can spend even the short time that I was in China without being deeply impressed with the industry and sobriety of that people, with the idealism of many of their leaders, with the growth of public opinion there, with the profound effort that is steadily being made to establish a Central Government that will function as well as the local governments function. The present Government at Peking, as everyone knows, is weak and inefficient. Yet if the American people lend to the Chinese the counsel and the aid, material and spiritual, which the Chinese are so longing for and which they look to America to give to them, we shall, I am confident, witness in the coming years the development of a great and powerful nation there, a nation of four hundred million people, whose admiration and warm friendship the United States can, if we bestow proper thought and effort upon the matter, secure for all time to come.

For the first time in the history of the negotiations of the group loan to China, the representatives of the countries interested will hold their conference in New York City, the first meeting being called for September 15. In the past, such conferences have always been held in either London or Paris.

City Bank Publications.

During the current month, The National City Bank of New York has issued the following publications:

SUPREMACY OF THE ECONOMIC LAW, by George E. Roberts, Vice-President, The National City Bank of New York.

FINANCING FOREIGN TRADE THROUGH CREDITS AND FOREIGN INVESTMENTS, by John E. Gardin, Chairman of the Board, International Banking Corporation.

OUR SOUTH AMERICAN TRADE AND ITS FINANCING, by Frank O'Malley, Assistant Cashier, The National City Bank of New York.

THE SERVICE OF A BUSINESS LIBRARY, by Alice L. Rose, Librarian, The National City Bank of New York.

A Correction.

In the June issue of this Letter it was stated that the prices of automobiles had recently been reduced in Omaha. We have since been informed that there were no actual reductions in prices of cars but that proposed advances were temporarily deferred.

Discount Rates.

Rates on paper discounted for member banks approved by the Federal Reserve Board in effect June 26, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by		Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness	Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5½	6	..	7	7	7
New York	5½	6	6	7	7	7
Philadelphia	*5½	5½	5½	6	6	6
Cleveland	5½	5¾	5½	5¾	6	6
Richmond	5½	6	6	6	6	6
Atlanta	*5½	5½	5½	6	6	6
Chicago	5½	6	6	7	7	7
St. Louis	*5½	5½	5½	6	6	6
Minneapolis	5½	6	6	6½	7	7
Kansas City	5	5½	5½	6	6	6
Dallas	*5½	5½	5½	6	6	6
San Francisco	5½	6	5½	6	6	6

*5¼ per cent on paper secured by 5¼ per cent certificates, and 5 per cent on paper secured by 4¾ and 5 per cent certificates.

NOTE.—Rates shown for Atlanta, St. Louis, Kansas City, and Dallas are normal rates, applying to discounts not in excess of basic lines fixed for each member bank by the Federal Reserve Bank. Rates on discounts in excess of the basic line are subject to a ½ per cent progressive increase for each 25 per cent by which the amount of accommodation extended exceeds the basic line.